stonehouse
WEALTH MANAGEMENT

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Resolutions In Review

by the Stonehouse Investment Committee
(Mark Stewart, Bart Dowling, Ben Hancock)



2015 will be different. Forget about those New Year's resolutions for promising to eat healthier and lose weight or flossing your teeth more. Instead, we want everyone to commit themselves that come 1 January you will approach things differently from an investment standpoint.

Next year, everyone should be more obsessed about risk than return. Indeed when making each and every investment decision in 2015 one should at first ask 'What will this decision commit to my investment portfolio's overall risk?' rather than 'What will this decision commit to my investment portfolio's overall return?'

Why have the rules of the game changed? Quite simply we have entered the more mature stage of the investment cycle. There are very few things that you can be certain of in the world of finance but the one thing we are absolutely confident of is that at some point in the future there will be another substantial market upheaval and then possibly the onset of the next bear market. Depressing but true.

> "Capital preservation is always at the forefront of our minds - but even more so now given that we have acknowledged that the investment cycle has entered the mature stage."

It seems that on average every ten years investment markets get themselves into some sort of bind - 1987, 2000, 2008….. for example - and much of the return that many may have made during the bull market phase of the investment cycle gets depleted. To help investors determine the key signposts along the way we have constructed a stylized diagram (viewed on page two), of the typical credit / investment cycle that drives this 10 year bull / bear phenomenon.

What will likely change in 2015 is that the US Federal Reserve will be the first major developed market central bank to embark upon interest rate tightening. According to our investment clock (next page), this puts us at about the 6 o'clock phase. From here on in, the clock keeps ticking towards midnight and the investment cycle becomes more and more 'mature'.

As we enter this phase, risk management takes on heightened importance. The reason? Well, we really don't know when exactly the cycle will end. 10 years is just the average periodicity - some investment cycles are shorter, some are longer. Setting our investment clock at the stroke of midnight during the depths of the GFC - October 2008 - puts us presently at 6 years into the average investment cycle.

This is not the time to embrace excessive risk - as many do - by heavily gearing and other types of performance chasing endeavours. Remember what happened with Storm Financial? What we find fascinating is that one of the explanations as to why the 10 year credit / investment cycle unerringly seems to apply is that it takes humans around 5 years to forget the sins of the past (or in Behavioural Finance parlance 'form a revised frame of reference') and move on again. Five years of excess followed by five years of repent sounds about right to us.

Others term this phenomenon as the 'greed and fear' that drives investment markets. For the first five years post a market calamity such as the GFC investors as a group appear to be too fearful. As these regrets are gradually erased from our minds investors as a group tend to become too greedy mispricing risk and commence sowing the seeds of the next market crash. We now appear to be entering this greedy stage.

Still, we don't want people to get too depressed just before Christmas. All we're saying is that the rules of the game are about to change for 2015 and we all should be cognisant of

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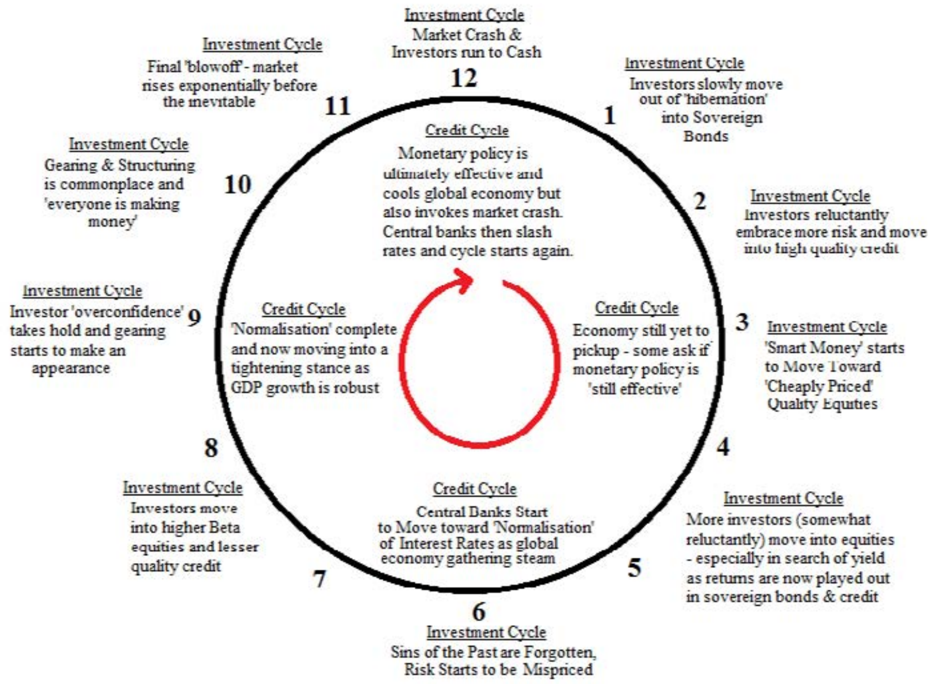
this. Chasing high performance is especially dangerous right now. It is right at the point of time where we should be winding back that most seem to want to go towards the most extreme.

Our advice is to make carefully considered decisions to pursue returns when they are available but only doing so in a judicious fashion when it comes to balancing the all-important premise of risk versus return. Collectively as an Investment Committee we can assure you that we are constantly testing ourselves against this criterion.

Capital preservation is always at the forefront of our minds - but even more so now given that we have acknowledged that the investment cycle has entered the mature stage. Hence our focus on locking in returns and only taking calculated risks at this phase of the cycle. Investment returns are too hard won, we don't want to just give them away. This is key to the charter of Stonehouse Investment Committee.



SMSF Notice Board

- We have commenced work on the Fund's 2014 Income Tax Returns. If you have not forwarded the necessary information to us, please do so as soon as possible;
- We have received numerous calls from ATO who is chasing overdue lodgements and payments. If you have outstanding lodgements, please contact our office for assistance with this.

Five Minutes with ...

Steve Kellaway, Credit Adviser, Stonehouse Group

Please explain your job title. There has been a move in the industry away from the term Mortgage Broker. The reason is two-fold, firstly we are now legislated to give advice and secondly we advise not just on Mortgages but cover a wider spectrum of credit such as asset lending (like car loans) and commercial funding.

Why did you make the move to Qld? My mum moved to Queensland first and every time I came to visit I had trouble going back to the cold and unpredictable weather in Melbourne. I still love it there but Brisbane is now my home.

Your football code? Growing up in Melbourne means AFL is still my favourite code - I love the Richmond Tigers. My dad used to take me to the MCG most weeks to watch them play. I also follow the Broncos and Brisbane Roar occasionally and love the State-of-Origin (Maroons of course!).

What does your role entail? Helping to improve Stonehouse clients' financial position by assisting them into a credit facility that best meets their long term financial goals. Whether it's a residential mortgage, a property-secured investment or development loan, we can help.

What are you currently reading? I'm just about to go on a 14 day hike up to Mt. Everest Base Camp in Nepal so for pleasure I'm reading an old book called *A Hermit in the Himalayas*.

What will the finance solutions arm mean for clients? The new Stonehouse credit arm adds another facet of professional advice to the Stonehouse umbrella. Stonehouse Finance Solutions complements the role of the financial advisers, enhancing the clients' ability to achieve their goals.

To Fix or Not to Fix, That is the Question?

Kane Livingstone, Partner/Financial Adviser

Fixing your mortgage interest rate is a common topic of discussion, whether it be professionally or personally, with your Financial or Credit Adviser, work mates or even a weekend barbeque discussion with your next door neighbour. Unfortunately though, this discussion has become increasingly difficult to decipher in the past few years since the decoupling of financial institutions from traditional monetary policy (the act of increasing or decreasing the cash rate) governed by the Reserve Bank of Australia (RBA).

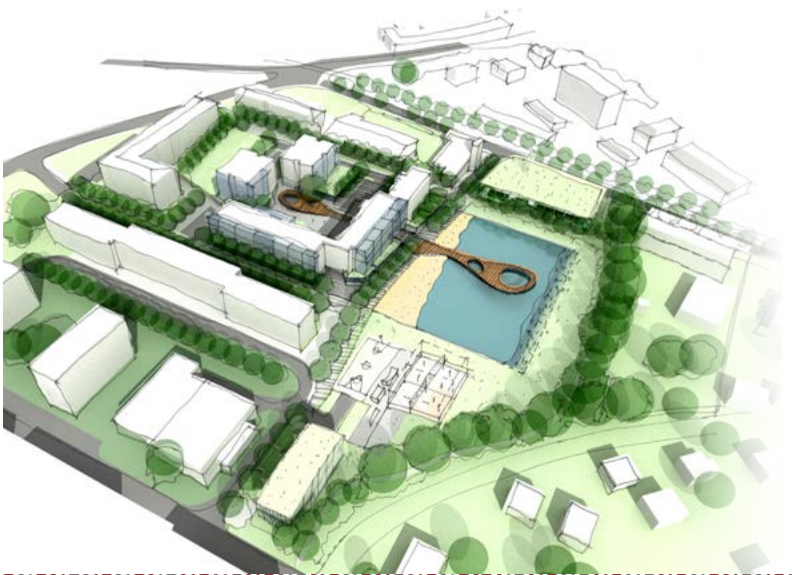
For those of you who read the various articles that suggest to fix your rate, allow me to remind you that nobody, I repeat nobody has the ability to predict the future with any degree of certainty.

So to break it down into more simple terms we typically have two fundamental choices. One choice is to remain on a variable interest rate whereby the interest payments fluctuate up and down, the second is to fix all (or part) of your loan meaning your loan interest payments (on the fixed component) are set at a certain amount for a certain period of time.

Personally, I have always been a fan of variable interest rates, the reason for this is the flexibility it provides me in that I am able to shift financial institutions should I feel the need. In my opinion this flexibility is going to be important moving forward due to the ever-changing landscape of financial products and solutions.

When on a variable rate you partake in any decrease in interest rates, which has typically been the case since the global financial crisis, lastly a variable rate allows you to repay all or part of your loan at any stage without any restrictions or penalties.

However, the risk of going variable is that at some stage interest rates increase. This has a negative impact on your disposable income as you are now sustaining a higher level of interest payment. To put this into perspective, during the period of October 2009 and November 2010 interest rates rose by approximately 2% across the board (some more, some less).



Assuming your interest rate was 6% per annum in October 2009, in November 2010, just a tick over 12 months later it was 8% per annum. This represents a staggering 33% rise in your interest costs, partly due to the increase coming off such a low base.

To provide even further clarity, on a typical mortgage (current average is $443,000) this shift added an additional payment of $170 per week to the typical household.

The largest benefit of fixing your interest rate is that it removes all the risks mentioned above. Please avoid them if your sole focus is to save on interest. Fundamentally this is not what fixed interest rates are about. Fixing your rate should only ever be viewed as an insurance policy against the financial pressures of rising interest rates.

Under a fixed interest rate your repayments are defined for a certain period of time, typically 12 months to 5 years, and they simply do not change.

However, it is important to note that this certainty does come at a cost. Typically a fixed rate will sit between a little and a lot more than their variable counterpart depending on the term. In the majority of cases you will lose the benefit of a mortgage offset account and also be limited to how much you are able to repay from the loan in any given year.

Arguably the largest negative to a fixed rate is there are sometimes exorbitant break costs relating to paying the loan out or refinancing to a different financial institution. Therefore fixed interest rates should only be considered if, for the term of the fixed rate, your circumstances are going to remain quite stable and a future move or sale of property is not on the cards.

In a world of growing complexity and choice, and one where we are all time poor, it is simply too bigger task to assess your own circumstances, review all the available options in the marketplace and then ultimately select the best product, strategy and benefits which suit you. Therefore it is of utmost importance that when considering a mortgage, or considering making the switch to a fixed interest rate on your existing mortgage, take the time to discuss it first with your Financial Adviser to ensure its suitability.

Celebrating Christmas, Stonehouse Style...

Each of our offices will be closed from noon on Friday, December 19th and will be re-opening between Monday, January 5th and Wednesday, January 7th.

"This year will be a family lunch with my wife, kids and lots of ham and turkey!"

- Scott Stewart

"We'll be at Tweed Heads, preventing my daughter from accessing the presents before 3am."

- James Warwick

"I'm off to Europe, so it's a traditional white Christmas for me."

- Louis Strange

"We'll eat plenty of candy canes and split our time between the Gold Coast and Adelaide."

- Tegan Ginty

"For us it's a traditional Champagne breakfast with everyone including my niece and nephew."

- Darren Lees

"We celebrate Christmas in December, then a month later, a traditional Ukrainan Christmas."

- Jon Papinczak

"I'll be house sitting and hanging out with family and friends by the pool."

- Kate Duff

"The beach with the kids, then later to Melbourne for the Australian Open."

- Michael Stewart

"This year the family will all be together at Ballina in NSW down on the beach."

- Belinda Auld

"It's also my Dad's Birthday so we always have plenty to celebrate at home."

- Sarah Bridge

"It will be Mum's Roast Turkey (still good when its 40 degrees outside), then off to Byron Bay."

- Mark Stewart

"I'll spend Christmas Day at Michael's new place then head to Esk during the break to start my sky diving B licence."

- Brad Stewart

"We always do a secret Santa gift exchange before a lunch with Dad's baked ham a real highlight."

- Joanne Davis

"We'll attend the Eve service at either St Stephen's or St John's then after Christmas take off on a South-bound road trip."

- Ben Hancock

"We have an orphan Christmas for everyone who has family in remote areas, so it's bring a plate."

- Ebony Rynsdorp

"It's all about the plum pudding, roast turkey (on the Weber) and glazed leg ham."

- Kane Livingstone

"I'm going back home to Mudgee, NSW and our family's traditional three tiered fruit jelly and marshmallow madness dessert."

- Emma Judd

"We always start with Peking Duck on Christmas Eve then follow that the next day with seafood and ham."

- Declan Baker

"A traditional Christmas lunch at home with all the family and great roast pork and lamb."

- Rory Davis

"All the family gathers together in the morning at my house, so its a big breakfast all round."

- Michelle Warren

"I will be eating a lot of a ginger bread house then heading to Melbourne for the Australian Open."

- Andrew Stewart

"We'll head to the Sunshine Coast to relax and watch some Christmas movies such as Elf and National Lampoon."

- Lara Stewart

"I'll be travelling to the USA for a cousin's wedding and spending the holiday season with family."

- Jeremy Chiel

"I'll be singing carols at St Fancis Xavier on Christmas Eve."

- Tom Roche

"My favourite Christmas Day meal? Turkey roasted in the barbecue."

- Kevin Stewart

"I'm going to spend Christmas on the Gold Coast and enjoying Mum's home cooking."

- Nick Webb